Preface

This is the second report prepared in response to a two-part request from the Office of Policy, U.S. Department of Energy, to provide an estimate of U.S. Federal energy subsidies. In its request, the Office of Policy asked the Energy Information Administration (EIA) to update a 1992 EIA report on Federal energy subsidies,[1] including any additions or deletions of Federal subsidies based on Administration and Congressional action since the 1992 report was written, and to provide an estimate of the size of each current subsidy. The initial request, in May 1999, focused exclusively on programs affecting primary energy that were specific to energy markets and provided a financial benefit. In response to that request, EIA prepared a service report, *Federal Financial Interventions and Subsidies in Energy Markets 1999: Primary Energy*, published in September 1999.[2] Prior to the issuance of that report, the Office of Policy made a second request, extending the May request to include Federal interventions affecting energy transformation (principally electric power generation and transmission) and energy end use. Again, the Office of Policy requested that the subsidy be specific to the identified energy markets and confer a financial benefit. This report, which addresses information relevant to the second request, is intended to complement rather than duplicate the work of the first report, which described Federal programs related to primary energy. Both request letters are provided in Appendix E.

The legislation that established EIA in 1977 vested the organization with an element of statutory independence. It is EIA's responsibility to provide timely, high-quality information and to perform objective, credible analyses in support of the deliberations of policymakers. EIA prepared this Service Report upon special request, using the assumptions specified by the requestor.

EIA would like to acknowledge the many groups that provided either formal or informal reviews of this report. The reviewers included: Department of Agriculture (Rural Utilities Service), American Public Power Association, Bonneville Power Administration, Congressional Budget Office, Edison Electric Institute, Department of Energy, General Accounting Office, PHB Hagler Bailly, Tennessee Valley Authority, Department of Treasury, and TVA Watch. Numerous discussions were held with interested parties to discuss the issues covered in this report and to clarify complex technical and financial questions. The comments that were received were carefully reviewed and incorporated where appropriate.

This report was prepared by the staff of EIA's Office of Integrated Analysis and Forecasting. General questions about the report may be directed to Mary J. Hutzler (202/586-2222, mhutzler@eia.doe.gov), Director of the Office of Integrated Analysis and Forecasting. Specific questions about the report may be directed to the following analysts:

[1]Energy Information Administration, *Federal Energy Subsidies: Direct and Indirect Interventions in Energy Markets*, SR/EMEU/92-02 (Washington, DC, November 1992).

[2]Energy Information Administration, *Federal Financial Interventions and Subsidies in Energy Markets 1999: Primary Energy*, SR/OIAF/99-03 (Washington, DC, September 1999).

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Appendix A, Previous Studies of Federal Government Energy Interventions

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Appendix C, Federal Energy Research and Development Appropriations for Conservation and End Use

Assistance provided by Arthur Rypinski, formerly of the Energy Information Administration, is also gratefully acknowledged. James Hewlett and Lawrence Prete, Office of Integrated Analysis and Forecasting, and Douglas Hale, Statistics and Methods Group, provided a detailed review of issues related to Federal electricity programs.

Purpose and Limitations

This report provides a snapshot of a select set of Federal subsidies in U.S. energy markets. As defined by the requestor (the U.S. Department of Energy's Office of Policy), to be included in this report a subsidy must derive from a Federal program, be specific to energy markets, and provide a financial benefit to its recipients. This subsidy definition excludes many programs that have been considered subsidies in other analyses.[a] For example, all State programs are excluded, and tax-free bonds used by municipal electric utilities are excluded because non-energy companies such as municipal water and sewer facilities can also use them. Similarly, the tax-free pollution bonds and accelerated depreciation schedules used by investor-owned utilities are also excluded because of their use by non-energy companies.

When this report is compared with other analyses, careful attention should be paid to the definition of subsidy used in each report. There is no widely accepted definition of what constitutes a subsidy, and the definition used varies depending on the objective of a particular report. With respect to electricity markets, this report is not meant to address the relative advantages or disadvantages that ownership type (public or private) provides.

[a]See the bibliography in Appendix D for a list of other analyses.